

CHAPTER I

INTRODUCTION

This chapter examines the current situation in the pharmaceutical sector in Malaysia with emphasis on the local pharmaceutical manufacturers. Vision 2020 of the Prime Minister calls for the nation to attain an industrialised nation status by that time. The pharmaceutical industry being a producer of essential and strategic goods, must obviously be developed by then, being able not only to increase production capacity, to satisfy domestic needs and increase exports particularly products of Malaysian research and development utilising Malaysian resources.

The size of the domestic pharmaceutical market was about RM 900 million in 1995 of which only 30 % was contributed by local production. The balance of 70 % was held by the multinational companies which do not manufacture these products here but market as imports. The market is growing about 10 to 15 % per annum (Second Industrial Master Plan 1996 - 2005) as a result of per capital income increase and improved health awareness.

The pharmaceutical sector contributed 0.2 % of the total manufacturing output and 3 percent to the chemical industry group's gross output in 1993 as shown in Table 1.

Table 1 : Malaysia - The Structure of the Pharmaceutical Sector, 1988 - 1993

	1988	1989	1990	1991	1992	1993
<i>No. of Establishment</i>	27	31	33	38	41	37
<i>Gross Output (RM'000)</i>	124166	147373	148314	176256	187991	215884
<i>Value-added (RM'000)</i>	52777	56145	62771	69984	76510	96231
<i>Employment</i>	2095	2485	2520	2776	3102	3296
<i>Salary & Wages (RM'000)</i>	16038	18575	19216	23415	21939	27245
<i>Fixed Assets (RM'000)</i>	36324	40936	52858	68895	87260	114064

Source : Annual survey of Manufacturing Industries, Department of Statistics, Malaysia .
The industry includes MIC35220 only (drugs and medicines)

During the 1988 to 1993 period the pharmaceutical sector's gross output grew at an average annual rate of 11.7 % while its value added grew at 12.8 %. The sector is becoming more capital intensive with fixed assets growing at 25.7 % and employment growing at 9.5% annually (Second Industrial Master Plan 1996 - 2005). The labour productivity in terms of value added per employee in this sector is higher than the average in the manufacturing sector (refer to table 2 below).

Table 2 : Labour Productivity In The Pharmaceutical Sector 1993

	Pharmaceuticals	Manufacturing
<i>Value-added per Employee (RM)</i>	32305	29580
<i>Fixed Assets per Employee (RM)</i>	20864	31778
<i>Percentage Labour Cost</i>	17.74	9.76

Source : Productivity Report 1995, National Productivity Corporation, Malaysia.
computed from Annual Industrial Survey, Department of Statistics, Malaysia.

As Malaysia advances to realise her long term goal, the stress on productivity and global competitiveness becomes more pronounced. This necessitates the acceleration towards higher value added products. The manufacturing sector will be the engine of growth and in line with the Second Industrial Master Plan 1996-2005 has identified the pharmaceutical manufacturing sector for development and growth to help it through upliftment of the economy.

Table 3 : Malaysia's Balance Of Trade in Pharmaceuticals, 1988 - 1995

	1988	1989	1990	1991	1992	1993	1994	1995
Exports in RM'000								
SITC541	2151	22520	29422	33652	2409	30698	41592	59284
SITC542	33070	38227	40217	46729	52092	49507	63780	74787
Total	35221	60747	69639	80381	54501	80205	105372	134071
Imports in RM'000								
SITC541	68526	72657	79891	81945	81713	82454	91943	119814
SITC542	17477	228399	232856	273681	345141	283700	328780	412381
Total	86003	301056	312747	355626	426854	366154	420723	532195
Balance of Trade in RM'000								
SITC541	-66375	-50137	-50469	-48293	-79304	-51756	-50351	-60530
SITC542	15593	-190172	-192639	-226952	-293049	-234193	-265000	-337594
Total in RM'000	-50782	-240309	-243108	-275245	-372353	-285949	-315351	-398124

Source : Department of Statistics, Malaysia

Note : SITC541 : Medicinal and Pharmaceutical Products

: SITC542 : Medicaments (including Veterinary Medicaments)

Overall trade in pharmaceuticals shows that both imports and exports gradually rose during the 1988-1995 period . In 1995 the total exports was RM134 million while in 1991 it was RM80.4 million, an average growth rate of 12.3 percent. Imports grew at an average of 10% (see Table 3 above).

OBJECTIVES OF THE STUDY

The purpose of this study is to identify the critical success factors for the development and growth of the local pharmaceutical manufacturers in Malaysia. When the issues are properly addressed the study will lead to the expected outcome i.e. “to be a global supplier of pharmaceutical products and services of international standing and repute” which is the vision of the local pharmaceutical manufacturers.

The objectives of the study are :-

1. To evaluate the environment in which the local pharmaceutical manufacturer operates.
2. To evaluate the R & D capability of the industry.
3. To evaluate the requirement of funds for investment, research and operations.
4. To evaluate how the industry is coping with the tight labour market situation
5. To evaluate the effects of the regulatory control of the industry
6. To study how the industry needs to adapt when the AFTA is implemented.

LIMITATIONS OF THE STUDY

As was expected very limited information was available due to the competitive nature of the industry and as such complete information was not forthcoming. As such there were several inherent limitations in the methodology and collection of data. The data from personal interviews were limited probably due to the fact that I am a pharmacist and employed in the same industry that is pharmaceutical manufacturing. However as the

nature of the study was exploratory, it is hoped that this study despite its limitations, will aid future research in this area.

IMPLICATION OF THE STUDY

This study will identify the success factors for the industry as it stands today. Developing a strategy focusing on these aspects of the industry would herald a rapid and viable development of the industry as a whole benefiting the nation and the industry.

IMPORTANCE OF THE STUDY

The identification of the critical success factors will assist the present industry in knowing the areas to focus, to achieve the objectives of the company i.e. increased productivity, expansion of product portfolio, improve product quality and increase their market share in the domestic and export.

The study would serve as a guideline for the critical success factors which manufacturers or new market entrants should focus and address right from the start so as to ensure successful achievement of corporate goals.

For the government, the study will highlight major problems faced by local manufacturers, which the relevant government departments should take steps to alleviate so as to build a successful pharmaceutical industry in Malaysia in line with Vision 2020.